



Director of
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EL SALVADOR: Military Developments

The military phase of the government's offensive in San Vicente Department made little progress this week, but the insurgents have been unable to seize the initiative in other areas. [REDACTED]

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A US military attache reports that Defense Minister Vides is disappointed by the lack of contact with the guerrillas in San Vicente. On his recent return from Washington, Vides told the General Staff that a more aggressive campaign was needed and threatened to lock the Army out of its garrisons. [REDACTED]

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[REDACTED] President Magana this week visited the secured areas of the department to view food distribution to displaced peasants and the beginning of redevelopment projects. [REDACTED]

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[REDACTED] Press reports state that the insurgents managed to destroy a bridge 22 kilometers north of San Salvador on Thursday.

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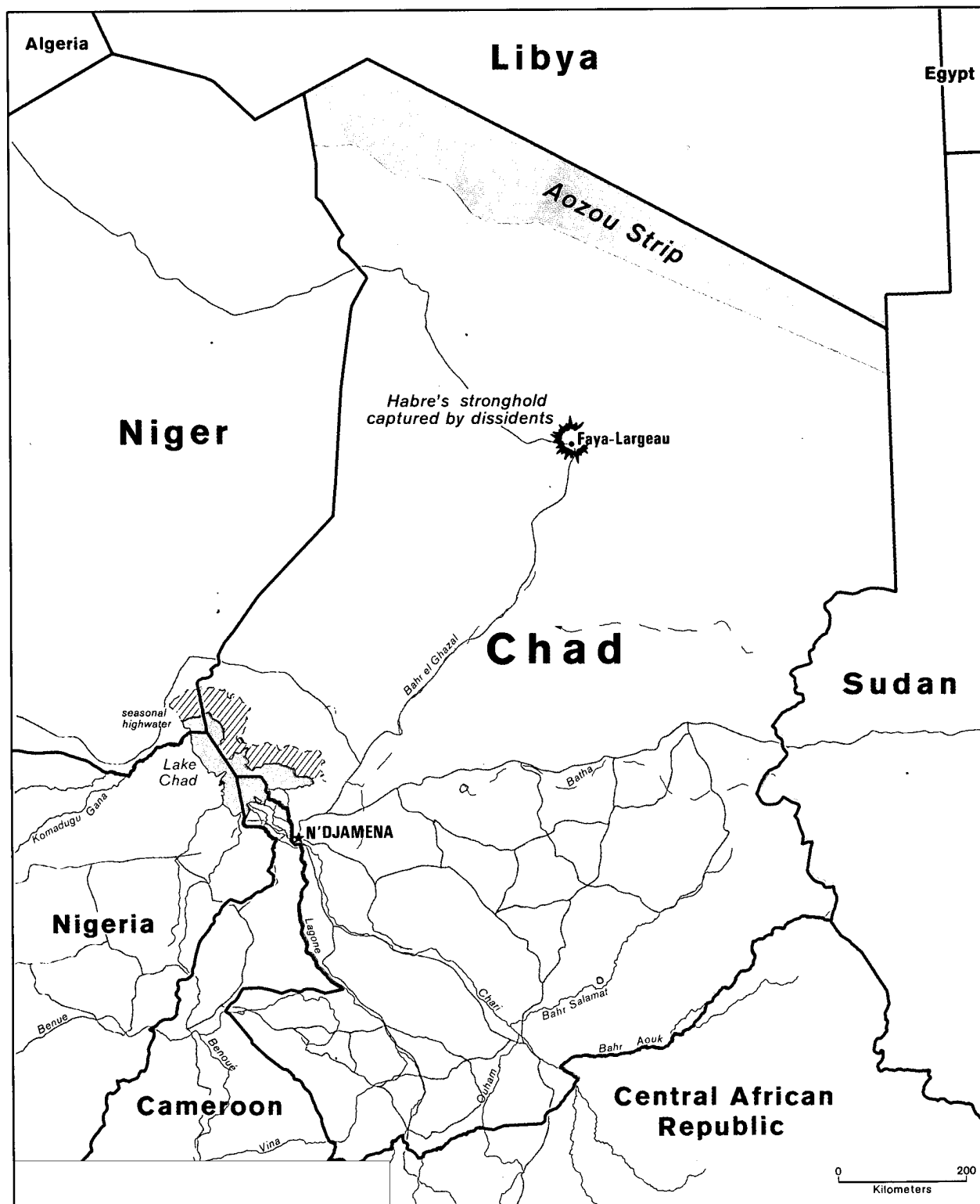
Comment: The government units in San Vicente have suffered more from bad weather than from guerrilla actions. Nevertheless, aggressive actions by local and reserve forces have helped keep the insurgents from disrupting the offensive. The Army's fragile new offensive spirit probably will face much stiffer tests in the next few weeks. [REDACTED]

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CHAD: Major Setback for Habre

President Habre is making urgent appeals for Western support following the fall yesterday of his government's northern stronghold at Faya-Largeau to Libyan-backed rebels.

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The rebels claim to have captured 500 to 1,000 prisoners.

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France is sending a special emissary to make a strong protest in Libya. The French also are consulting on possible joint action with principal Francophone African leaders and EC partners. In addition, they are considering whether to call for a UN Security Council meeting if there is clear evidence of Libyan involvement.

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Comment: N'Djamena is not immediately threatened. The rebels could resupply and prepare for further advances or remain in place and call for a diplomatic conference to replace Habre with a new government of "national unity."

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Libyan leader Qadhafi almost certainly welcomes the rapid conclusion of the battle, which eliminated the need for Libyan air support and the risk of even greater international condemnation. The Libyans are now likely to be less inclined to intervene directly on the rebels' behalf. Habre's defeat will increase the anxiety among Chad's African neighbors and their questioning of Western resolve to stand up to the Libyans.

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French officials may be divided over how to help Habre, but they probably agree that France should not intervene militarily. Their diplomatic campaign reflects President Mitterrand's sensitivity to the need for reassuring African leaders that Paris will resist Libyan coercion in the region.

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The special emissary is likely to warn Tripoli that efforts to improve bilateral relations—which have included a request by the Libyans to resume purchases of French arms—will suffer if their pressure on Habre continues. Mitterrand might be tempted to make a dramatic personal gesture, such as a rapid visit to N'Djamena. A visit by a senior cabinet minister, however, would be more likely.

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UK: Concern About Policy on the Falklands

A recent report by a House of Commons committee warns that the costs of defending the Falklands are likely to absorb an overly large portion of defense resources and could threaten the UK's contribution to NATO. [redacted]

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The reports says the total cost of the conflict, maintaining the garrison, and construction and improvement projects, including a new airfield, will average \$1.2 billion per year through 1986. This is almost 6 percent of the approximately \$21 billion defense budget for 1982-83. [redacted]

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British military personnel in the Falklands number about 4,900 men. There is a squadron of eight F-4 fighters, approximately eight Harriers, and 20 Rapier surface-to-air missile launchers. [redacted]

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In addition, one or two submarines, four to six destroyers and frigates, and several support ships are normally in the area. Most units have NATO missions, and some have been withdrawn temporarily from British forces in West Germany. [redacted]

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The committee's report also expresses concern about the long-term impact of a "Fortress Falklands" policy on the islanders' way of life and on the UK's wider foreign policy interests. [redacted]

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Comment: The government is unlikely to change its policy soon, despite the advice of the prestigious committee dominated by Conservative Party MPs. Nevertheless, the costs relating to the Falklands probably will result in growing pressure for some political accommodation with Argentina on the islands' future. [redacted]

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Although the forces in the Falklands reduce those immediately available to NATO in an emergency, the argument of government witnesses that the Falklands conflict improved British military capabilities also has some validity. If plans in 1981 to eliminate one aircraft carrier, two amphibious assault ships, and several destroyers and frigates had been carried out, the Royal Navy today would be smaller and less able to carry out its NATO commitment. Nevertheless, Falklands-related costs could ultimately threaten the Navy's modernization plans. [redacted]

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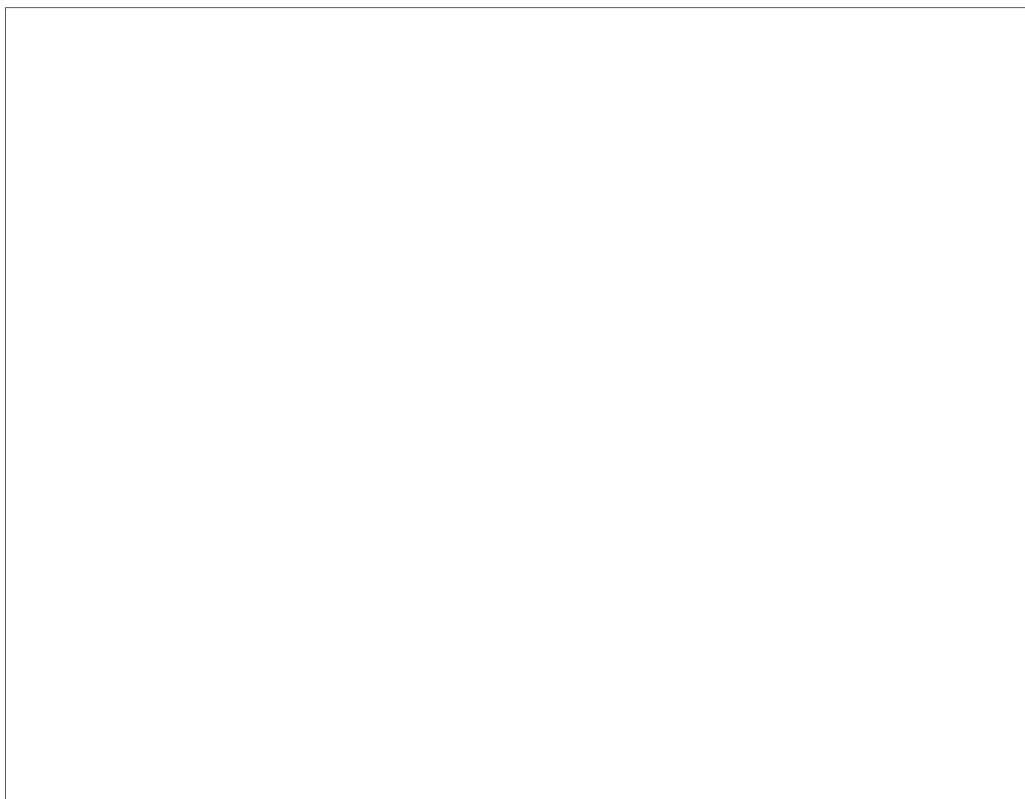
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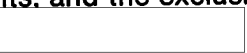
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**CZECHOSLOVAKIA: Walkouts From Peace Assembly**

Several delegates of the West German Green Party and the Italian Communist Party who were in Prague attending the World Assembly for Peace and Life Against Nuclear War walked out yesterday to protest Czechoslovak repression of dissidents. The Green delegates wrote a letter to President Husak denouncing the confiscation of film from Western journalists who were covering a meeting on Thursday between Charter 77 dissidents and Western peace activists. The Italians said they were leaving because of the suppression of antigovernment protests earlier this week, the alleged arrests of Charter 77 dissidents, and the exclusion of unofficial East European peace movements. 

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Comment: The Western focus on dissident activity and on the authorities' heavyhanded countermeasures has made the peace conference a public relations disaster and has frustrated its organizers' aim of enlisting Western public support for Soviet arms proposals. Husak may get a cool reception at the summit meeting next week in Moscow from other East European leaders, who presumably also were embarrassed and angered by the negative publicity. 

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BRAZIL: Continuing Economic Pressures

Severe cash problems are eroding Brazil's ability to import and are deepening its recession. [REDACTED]

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[REDACTED] Export earnings have not been faring well because of sluggish demand. They will be further constrained by flood damage to soybeans and other crops in the south. [REDACTED]

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Comment: Brazil's import expenditures through last month were more than 20 percent below the same period last year, and the inadequate supplies of key materials have forced manufacturers to scale back production. To meet the IMF-mandated \$6 billion trade surplus target, Brasilia will have to continue squeezing imports. The cut in imports and the unanticipated agricultural losses, combined with depressed demand, may lead to as much as a 5-percent decline in economic activity this year and raise unemployment to double digits. The growing recession will heighten government concerns about the potential for more labor unrest. [REDACTED]

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UK-US: Move To Protect Trade

The US Embassy reports that the UK has invoked its Protection of Trading Interest Act for the second time in a year, ordering British firms not to comply with US law. The order would enjoin British air carriers from providing information in a US civil aviation antitrust case. The Act was passed in 1979 in response to US sanctions against Iran. It was first invoked last year to prevent British-based firms, including some US subsidiaries, from complying with a US ban on deliveries of pipeline equipment to the USSR. [REDACTED]

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Comment: Prime Minister Thatcher has repeatedly expressed her displeasure over extraterritorial application of US law. The official announcement of the order, however, probably will be delayed until after Vice President Bush leaves London. By invoking the Protection Act in this instance, London is showing increasing resolve to fight what it sees as a violation of British sovereignty. It probably also indicates that the UK will resort to the Act more quickly in the future. [REDACTED]

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EC: Steel Decision Postponed

The EC Industry Council on Wednesday failed to agree on new steel production quotas and extended the current system, which had been due to expire on 30 June, for another month. The EC Commission wants the quotas extended until the end of 1985, when national and EC financial aids to the industry are to be phased out. West Germany, Italy, Belgium, and the Netherlands, however, want only a six-month extension. The negotiations also are complicated by the demands of Bonn, London, and Paris for larger quotas than the Commission is proposing. [REDACTED]

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Comment: Although EC members continue to fight over quota levels, the system of production controls almost certainly will remain in effect indefinitely. All members agree that, without such controls, cutthroat competition could cause more steel plants to be closed. At the next Industry Council meeting on 25 July, the Commission is likely to offer some increase in quotas to the West Germans, French, and British. Most of the increase, however, probably will come at the expense of other members' quotas. [REDACTED]

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ISRAEL-WEST BANK: New Monetary Controls

An Israeli press report states that residents of the West Bank and Gaza will no longer be able to write checks on bank accounts in Arab countries. According to the press report, the measure was taken to control funds that could be used for subversive activities. Earlier this week a West Bank newspaper reported that Israeli authorities were confiscating the personal checkbooks of moneychangers as they crossed the bridges between Jordan and the West Bank.

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Comment: If the ban on Arab checks is enforced, it will create a hardship for many West Bank Arabs who keep their funds in banks in Amman. Recently imposed Jordanian restrictions on the entry of West Bank residents will complicate their efforts to get their money. The new Israeli measure may be an attempt to force residents of the West Bank to deal with Israeli banks.

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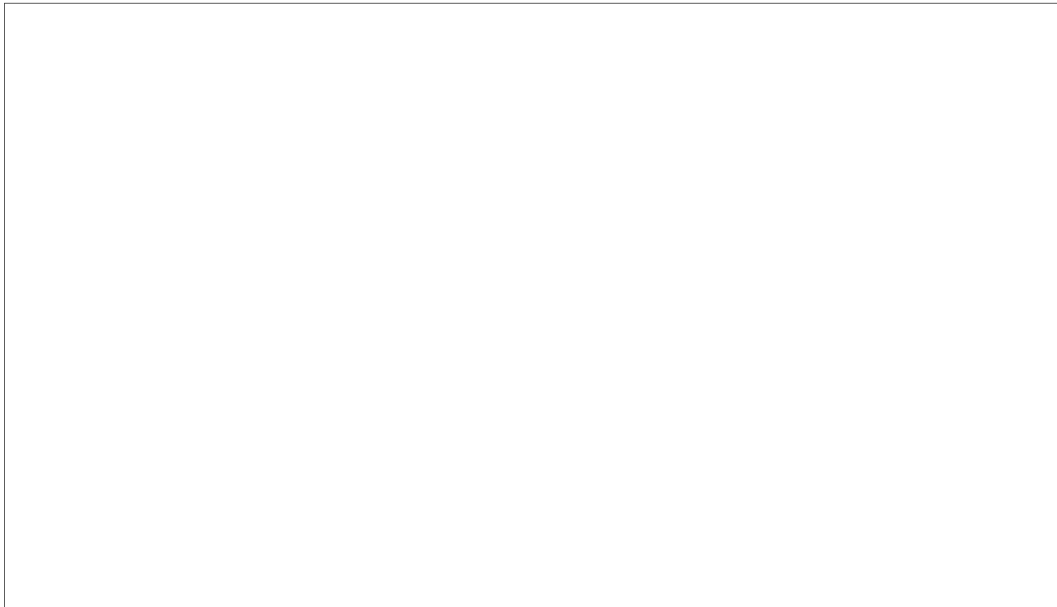
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**CUBA: Suicide of Former President**

The suicide of Minister of Justice and former President Dorticos is embarrassing to the regime, but it will have little effect on policy. The official announcement claimed that Dorticos, 64, was depressed over poor health and the recent death of his wife. Dorticos served as President from 1959 until 1976, when Fidel Castro assumed the post. In addition to being Minister of Justice, Dorticos held a wide range of other high-level but largely powerless positions in the party and government.

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Comment: Dorticos was not a major force in the decisionmaking process, and Castro apparently regarded him as a sycophant and a reliable bureaucrat. The Cuban people, however, are likely to link his suicide to the bribery scandal currently rocking the Ministry of Justice. Moreover, suicide is considered an unacceptable act for a revolutionary. Dorticos's death follows by less than two years the suicide of Haydee Santamaria, a national heroine who represented the highest ideals of Castro's revolution.

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Special Analysis

POLAND: Effects of the Pope's Visit

The public euphoria of the papal visit will soon fade as the regime reminds the population that it is still in control. Premier Jaruzelski may face additional criticism from hardliners and possibly from Moscow, but he is likely to counter that the government's control was not threatened and that nothing has changed. The most likely tangible result from the visit is that it will increase West European sentiment for a limited easing of sanctions.

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The millions who turned out to see the Pope showed that the regime has made little if any headway in reestablishing its legitimacy and that Poles remain ready to display open disdain. The behavior of the crowds indicated, however, that Poles generally believe it is not worthwhile to provoke violence.

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Despite the Solidarity banners and the displays of "V" signals, the crowds were disciplined. Only small numbers of people participated in the protests, and they dispersed quickly when faced with the police. The Church and the authorities demonstrated they could work together to resolve specific problems, including the meeting between the Pope and Lech Walesa.

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Maintaining Control

Jaruzelski and other officials made clear in public, however, that they are not willing to heed the advice of the Pope or the Church. They will continue to try to rebuild political institutions that do not challenge the regime's authority, to restructure inefficient economic bureaucracies, and to push for the removal of Western sanctions.

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The size and enthusiasm of the crowds, however, will reinforce the government's sense of caution. The security services will respond rapidly and forcefully to any increase in overt or underground Solidarity activity. At the same time, the regime probably will try to use Poland's national day on 22 July to maintain the impression that it is working for a national accord. Jaruzelski could announce an amnesty to demonstrate the government's sincerity, or even formally lift martial law. Nevertheless, neither action would indicate a major easing of political restraints and would be intended largely to influence Western decisions.

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The hardliners will be likely to take Jaruzelski to task for allowing the visit, because the Pope's remarks were more critical than the regime had expected. The Premier probably can fend off such attacks, particularly if there is movement to ease Western sanctions.

Future Internal Developments

Church-state ties are likely to be cooler, partly because of the regime's pique over the Pope's strong language. Work on a law giving legal status to the Church or establishing diplomatic relations with the Vatican probably will slow as Jaruzelski seeks to demonstrate that he is not dependent on the Church. The government will continue to rely on the Church's moderating influence, however, and probably will not make any broad-scale attacks on it.

Cardinal Glemp, who was slighted by the Pope, may come under increased pressure in the Polish Church to emulate the Pontiff's outspoken criticism of the regime's policies. Glemp's refusal to do so could lead to additional friction among Church leaders.

The hardcore Solidarity activists presumably feel vindicated by the Pope's endorsement of the union's ideals. Their enthusiasm may wane, however, as they face more directly the protracted struggle they know lies ahead.

The Pope probably advised Walesa to be patient and moderate in his antiregime activities. The next significant date on the Solidarity calendar is likely to be 31 August, the third anniversary of the founding of the union and the occasion of large demonstrations last year.

Over the longer term, the intractable economic problems, the continuing antigovernment sentiments linked only partly to the Pope's visit, and the regime's unwillingness to make political concessions will give the authorities little room to maneuver. This in turn will ensure that chances will remain high for disturbances.

Soviet and West European Reactions

The Soviets have remained largely silent about the visit, reporting in TASS without comment the Pope's arrival and his meetings with Jaruzelski. Although they almost certainly have been disturbed by the popular reaction to the Pope's statements, they probably are somewhat reassured by the fact that the authorities maintained control.

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Moscow will be likely to counsel Warsaw against any sudden relaxation of remaining martial law restrictions. If the rumored summit of East European party leaders next week in Moscow takes place, it will give the Soviets an opportunity to express their views directly to Jaruzelski. [REDACTED]

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The visit will not have a major effect on West European policy, but it may reinforce sentiment for a limited easing of sanctions. In the short term, this may mean only a willingness by Western governments to open rescheduling talks. [REDACTED]

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